



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.lacounty.gov>

DAVID E. JANSSEN
Chief Administrative Officer

June 19, 2007

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**2007-08 DEBT MANAGEMENT GUIDELINES; BOND ANTICIPATION NOTE
AUTHORIZATION AND BAN REIMBURSEMENT RESOLUTION; TAX-EXEMPT
COMMERCIAL PAPER AUTHORIZATION; HEALTH FACILITIES IMPROVEMENT
PROGRAM REIMBURSEMENT RESOLUTION
(ALL DISTRICTS) (3-VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

- 1) Approve the attached Debt Management Guidelines which limit the issuance of various debt financing instruments in 2007-08.
- 2) Approve the issuance of short-term Bond Anticipation Notes in an aggregate amount not to exceed \$70.0 million to finance the acquisition of various equipment needs through the Los Angeles County Capital Asset Leasing Corporation.
- 3) Approve the issuance of Tax-Exempt Commercial Paper in the amount of \$121.3 million to finance projected design and construction costs in 2007-08 of seven Health Services statutorily required and high priority projects identified in our DHS Hospital Improvement Financing memorandum to your Board on January 23, 2006 as reaffirmed November 17, 2006.
- 4) Approve a not to exceed limit of \$94.3 million on the issuance of Tax-Exempt Commercial Paper to finance project costs in 2007-08 for the LAC+USC Medical Center Replacement Project to temporarily backfill

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

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Fourth District

MICHAEL D. ANTONOVICH
Fifth District

delayed Federal Emergency Management Agency (FEMA) project funding.

- 5) Adopt the attached "Resolution of the Board of Supervisors of the County of Los Angeles Declaring its Intention to Reimburse Certain Capital Expenditures from the Proceeds of Taxable or Tax-Exempt Obligations (2007-08 Equipment BANs Program)".
- 6) Adopt the attached "Resolution of the Board of Supervisors of the County of Los Angeles Declaring its Intention to Reimburse Certain Capital Expenditures from the Proceeds of Taxable or Tax-Exempt Obligations (Health Facilities Improvements Program)".

PURPOSE/JUSTIFICATION

Approval of the recommended actions will establish guidelines that limit the issuance of County debt financing instruments in 2007-08 and allow the issuance of short-term Bond Anticipation Notes (BANs), to provide interim financing of equipment acquisitions, and allow the issuance of tax-exempt commercial paper (TECP), to provide interim financing of statutorily required or high priority health facility projects and to backfill delayed FEMA reimbursement of project costs on the LAC+USC Medical Center Replacement Project, in accordance with federal tax regulations.

Background

On July 3, 1990, the Board of Supervisors adopted Comprehensive Debt Management Guidelines (Guidelines) to regulate the use of various financing instruments. The Guidelines provide limits for the issuance of short and long-term obligations. They do not apply to voter-approved debt or debt incurred by Agency funds. The Guidelines are reviewed annually and an annual update is filed with the Board regarding the following types of obligations:

- Bond Anticipation Notes
- Short-Term Tax-Exempt Notes
- Long-Term Leasehold Revenue Bonds or Certificates of Participation
- Unrated Short and Long-Term Obligations

The limits adopted for each of these debt categories are expressed as a percentage of the Total County Budget and represent the maximum amount of short-term obligations such as the BANs or tax-exempt commercial paper which may be issued as well as the maximum level of annual debt service on intermediate and long-term obligations and

bonds and certificates of participation (COPs) which may be incurred during the fiscal year.

In 1990, the Board of Supervisors approved a limit on the level of BANs issued and outstanding for capital projects and equipment equal to 2.0 percent of the Total County Budget. The Board also approved a limit on the annual payments due on intermediate and long-term bonds or COPs equal to 4.0 percent of the Total County Budget, and 0.4 percent for unrated, publicly offered obligations. Since that time, your Board has adjusted these maximum annual limits based on anticipated debt issuances. For the 2006-07 Debt Guidelines, your Board approved a limit on short-term BANs and tax-exempt commercial paper at 0.6 percent of the Total County Budget and 4.0 percent for intermediate and long-term bonds or COPs, and at 0.4 percent for unrated publicly offered obligations.

LAC+USC Medical Center Replacement Project (Replacement Project)

During 2005-06, your Board approved the securitization of a portion of future tobacco settlement funds to repay all outstanding TECP issued for the Replacement Project. On February 8, 2006, the Treasurer-Tax Collector successfully completed the sale of tobacco securitization bonds and repaid \$267.6 million in outstanding Replacement Project TECP. At that time, we advised your Board that no additional TECP would be necessary to fund the Replacement Project. However, in March 2007, the California Office of Emergency Services, which administers the FEMA grant funding, notified the County that the remaining \$94.3 million balance of FEMA reimbursement for the Replacement Project would not be released until all work on the project had been finished and an audit completed. The delay in reimbursement has created a gap in project funding which must be bridged to ensure the timely completion of the project and fulfillment of contractual obligations. We are not requesting approval of TECP for the Replacement Project through this action. Together with the Treasurer-Tax Collector, we will return to your Board to request specific authorization for TECP issuance for the Replacement Project.

Proposed 2007-08 Debt Management Guidelines

The Proposed 2007-08 Debt Guidelines place a limit on short-term BANs and tax-exempt commercial paper at 1.4 percent of the Total County Budget and maintain the limits on annual payments as a share of Total County Budget at 4.0 percent for intermediate and long-term bonds or COPs, and at 0.4 percent for unrated publicly offered obligations.

The recommended short-term debt limit for 2007-08 reflects an increase from the 2006-07 limit due to the issuance of increased amounts of TECP to provide interim financing of statutorily required or high priority health facility projects as listed in Table 1 (Health Facilities Projects), as well as to cover the unexpected delay in reimbursement on the Replacement Project. We anticipate needing a maximum TECP authorization of \$215.6 million in 2007-08 to finance up to \$121.3 million in expenditures for the Health Facilities Projects as well as \$94.3 million for project costs on the Replacement Project. We will return periodically to your Board to request adjustments to the appropriation levels of these TECP-funded projects as needed. See Table 1 below for the breakdown of TECP authorization by project.

Table 1

| Hospital | Project (Capital Project Org.) | 2007-08 TECP Authorization |
|-------------------|---|----------------------------|
| Harbor/UCLA | Surgery/Emergency Room Project (C.P. 69220) | \$45.3 million |
| High Desert | Multipurpose Ambulatory Care Center Conversion (C.P. 77350) | 6.0 million |
| Olive View | Emergency Room Replacement (C.P. 69249) | 12.0 million |
| M.L.King/Harbor | SB1953 Seismic Retrofit Program (C.P. 86536) | 5.0 million |
| Olive View | SB1953 Seismic Retrofit Program (C.P. 86537) | 14.8 million |
| Harbor/UCLA | SB1953 Seismic Retrofit Program (C.P. 86534) | 15.0 million |
| Rancho Los Amigos | SB1953 Seismic Retrofit Program (C.P. 86536) | <u>8.2 million</u> |
| Subtotal | | \$106.3 million |
| | Contingency | <u>15.0 million</u> |
| Total | | \$121.3 million |

The recommended limits on annual payments for intermediate and long-term bonds or COPs are consistent with the Guidelines adopted in 1990. The debt and annual payment obligations projected for 2007-08 are specified in Attachment I.

Reimbursement Resolution

In addition to adopting the proposed debt limits, we are requesting that your Board execute the two attached Reimbursement Resolutions, as approved by County Counsel, to comply with federal tax regulations governing the recovery of County capital costs from taxable and tax-exempt bond proceeds. Execution of the 2007-08 Equipment BANs Program resolution will enable the County to maximize reimbursement for costs related to the financing of equipment for various County departments. Execution of the Health Facilities Improvements Program resolution will enable the County to maximize reimbursement for costs related to the financing of projects costs on the TECP-financed health project discussed in this letter.

Internal Revenue Service Requirements

In 1991, the Internal Revenue Service (IRS) introduced regulations governing the reimbursement of expenditures from bond or COP proceeds. In order to ensure the continued recovery of allowable expenditures which were related to equipment acquisitions, the regulations require your Board to adopt a Resolution which states the following:

- your Board's intention to finance expenditures related to equipment acquisitions;
- a statement that any such expenditures would be financed through a tax-exempt or taxable issuance of bonds or COPs;
- a qualitative description of the proposed project whose expenditures would be reimbursed from the proceeds of such an issue; and
- identification of the expected source(s) of funds which would initially pay for such expenditures and ultimately be utilized to repay the bond or COP obligation.

The attached Resolution meets IRS regulations and will allow for maximum reimbursement of County expenditures for equipment from future bond sales. Prior and current year costs have been included to allow reimbursement from a future bond sale. A description of the proposed equipment is attached for your review.

FISCAL IMPACT/FINANCING

Approval of the recommended actions will enable the County to finance ongoing equipment and capital needs. Funding for the repayment of BANs and debt service on intermediate and long-term obligations has been included in the Proposed 2007-08 Budget. Attachment II summarizes General County debt obligations as of July 1, 2006.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The attached Reimbursement Resolutions have been approved by County Counsel.

IMPACT ON CURRENT SERVICES

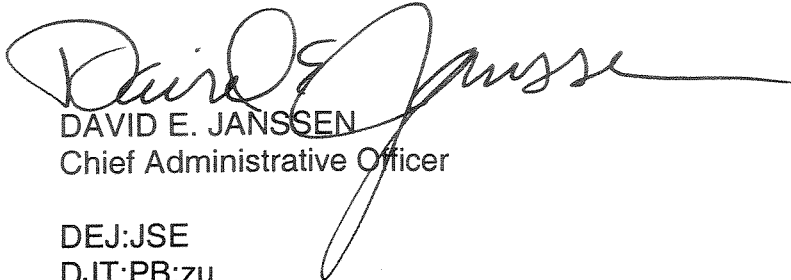
The recommended action will ensure that the County's long-standing LAC-CAL Equipment Program continues.

The Honorable Board of Supervisors
June 19, 2007
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CONCLUSION

Upon approval of the recommendations, please forward an adopted, stamped copy of the Board letter and an executed copy of the Reimbursement Resolutions to my office.

Respectfully submitted,



DAVID E. JANSSEN
Chief Administrative Officer

DEJ:JSE
DJT:PB:zu

Attachments

c: County Counsel
Auditor-Controller
Treasurer and Tax Collector

County of Los Angeles
Debt Management Guidelines
Proposed 2007-08 Debt Limits

Attachment I

| Obligation Type | Maximum Limits Per Guidelines | Levels in Final 2007-08 Budget |
|--|-------------------------------------|---|
| Total 2007-08 County Budget: \$21,241,000,000 | | |
| I. Short-Term Obligations | | |
| Limit on Principal Outstanding as a Percentage of Total County Budget | | |
| a. Dollar Limits | | |
| Outstanding LAC-CAL Bond Anticipation Notes (1) | \$ 70,000,000 | \$ 30,000,000 (2) |
| Authorized LAC-CAL Acquisitions in 2007-08 | -- | 22,232,000 (3) |
| Outstanding Tax-Exempt Commercial Paper (TECP): Health Facility Projects | 123,800,000 (4) | 2,500,000 (5) |
| Estimated TECP Issuance for Health Facility Projects in 2007-08 | -- | 121,300,000 |
| Estimated TECP Issuance for LAC+USC Replacement Project in 2007-08 (6) | 94,300,000 | 94,300,000 |
| Total | \$ 288,100,000 | \$ 270,332,000 |
| b. Percent of Total County Budget | 1.36% | 1.27% |
| II. Publicly Offered Intermediate and Long-Term Obligations (7) | | |
| Limits on Annual Payments as a Percentage of Total County Budget | | |
| a. Dollar Limits (in millions) | \$ 849,640,000 | \$ 540,964,748 |
| b. Percent of Total County Budget | 4.00% | 2.55% |
| III. Privately Placed, Intermediate-Term Equipment Leases (8) | | |
| Limits on Annual Payments as a Percentage of Total County Budget | | |
| a. Dollar Limits (in millions) | \$ 84,964,000 | \$ 21,434,861 |
| b. Percent of Total County Budget | 0.40% | 0.10% |

- Notes:**
- (1) Reflects BANs issued by the LAC-CAL Corporation to the County Treasury Pool which are ultimately redeemed through the issuance of bonds or certificates of participation. Until redemption, interest payments are payable on a semi-annual basis.
 - (2) Reflects amount of LAC-CAL BANs outstanding as of 7/1/07.
 - (3) Reflects the value of acquisitions identified for lease-purchase financing through LAC-CAL in the Proposed 2007-08 Budget
 - (4) Reflects the TECP amount approved by the Board of Supervisors in this action to fund the 2006-07 anticipated project costs related to capital projects in the Health Facilities Capital Improvement special fund.
 - (5) Reflects the amount of tax-exempt commercial paper (TECP) for Health Facilities Projects that remains outstanding as of 07/1/07, all related to Harbor Hospital Seismic Retrofit (SB1953) project.
 - (6) Assumes future Board approval of \$94.3 million TECP issuance for LAC+USC Replacement Project
 - (7) Reflects 2007-08 payments due on intermediate and long-term obligations outstanding as of 7/1/2007.
 - (8) Reflects 2007-08 payments on various unrated, privately-placed equipment leases with maturities of 18 to 120 months.

GENERAL COUNTY DEBT OBLIGATIONS
SUMMARY SHEET
AS OF JULY 1, 2007

| | Outstanding Principal | Total Future Payments | 2007-08 Payments |
|--|--------------------------|--------------------------|-----------------------|
| I. Debt Summary | | | |
| a. Total Outstanding Principal | \$ 1,441,826,104 | \$ 0 | \$ 0 |
| b. Total Future Payments | 0 | 2,805,969,941 | 0 |
| c. Total 2005-06 Payments | 0 | 0 | 518,563,096 |
| II. Outstanding Debt By Type of Obligation | | | |
| a. General Obligation Bonds | \$ 0 | \$ 0 | \$ 0 |
| b. Special Fund Obligations | 0 | 0 | 0 |
| c. Pension Obligation Bonds/Certificates | 546,849,148 | 1,432,236,545 | 381,602,899 |
| d. Long-Term Bonds/Certificates: Capital Projects | 875,711,956 | 1,353,491,084 | 125,444,184 |
| e. Intermediate Term Bonds/Certificates | 19,265,000 | 20,242,313 | 11,516,013 |
| Total | \$ 1,441,826,104 | \$ 2,805,969,941 | \$ 518,563,096 |
| III. Outstanding Debt by Function | | | |
| a. Public Safety | \$ 555,412,054 | \$ 796,104,953 | \$ 74,208,816 |
| b. General Government | 20,898,326 | 25,236,788 | 4,081,476 |
| c. Pension Bonds | 547,283,772 | 1,432,561,710 | 382,241,261 |
| d. Health | 155,195,380 | 185,891,850 | 35,885,436 |
| e. Culture and Recreation | 109,949,738 | 296,196,659 | 12,905,176 |
| f. Other | 53,086,833 | 69,977,981 | 9,240,932 |
| Total | \$ 1,441,826,103 | \$ 2,805,969,941 | \$ 518,563,096 |
| IV. Distribution of Obligations by Funding Source | | | |
| a. General Fund | \$ 540,809,412 | \$ 1,060,961,149 | \$ 188,860,172 |
| b. Other Funds | | | |
| General Obligation Bond Fund | \$ 0 | \$ 0 | \$ 0 |
| Hospital Enterprise Funds | 297,112,966 | 557,278,230 | 134,812,633 |
| Courthouse Construction Funds | 339,022,443 | 539,332,655 | 32,316,471 |
| Special Districts/Special Funds | 88,836,324 | 187,323,725 | 39,725,924 |
| Trial Court Trust Fund | 28,109,687 | 73,621,255 | 19,615,534 |
| Subtotal | \$ 753,081,420 | \$ 1,357,555,865 | \$ 226,470,563 |
| c. Private Funding (Endowments) | \$ 0 | \$ 0 | \$ 0 |
| d. State and Federal Subvention | \$ 147,935,272 | \$ 387,452,927 | \$ 103,232,361 |
| Total | \$ 1,441,826,104 | \$ 2,805,969,941 | \$ 518,563,096 |

GENERAL COUNTY DEBT OBLIGATIONS
SUMMARY SHEET
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| d. State and Federal Subvention | \$ 147,935,272 | \$ 387,452,927 | \$ 103,232,361 |
| Total | \$ 1,441,826,104 | \$ 2,805,969,941 | \$ 518,563,096 |

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE
COUNTY OF LOS ANGELES DECLARING ITS INTENTION TO
REIMBURSE CERTAIN CAPITAL EXPENDITURES FROM THE
PROCEEDS OF TAXABLE OR TAX-EXEMPT OBLIGATIONS
(2007-08 EQUIPMENT BANs PROGRAM)

WHEREAS, from time to time the County of Los Angeles (the "County") desires and intends to undertake the purchase of tangible personal property having a useful life of three years or more (the "Equipment"), as set forth in the schedule attached hereto; and

WHEREAS, no funds of the County or of any other entity which is a part of the controlled group of which the County is a part (the "Controlled Group") are, or are reasonably expected to be, allocated, reserved or otherwise set aside in the County's budget or in the Controlled Group's budget on a long-term basis to pay the costs of the Equipment; and

WHEREAS, the costs of the Equipment will initially be paid from the proceeds of Bond Anticipation Notes ("BANs") issued by the Los Angeles County Capital Asset Leasing Corporation ("LAC-CAL") and purchased by the Treasurer and Tax Collector of the County; and

WHEREAS, the costs of the Equipment paid with the proceeds of the BANs are expenditures of a type which are properly chargeable to a capital account under general federal income tax principles in connection with the Equipment, and

WHEREAS, the County expects to issue taxable or tax-exempt bonds, notes, or certificates of participation, or enter into a tax-exempt lease with a third-party lessor (“Obligations”) to redeem the BANs and reimburse the capital expenditures of the County with respect to the Equipment which were paid with the proceeds of the BANs; and

WHEREAS, after issuance of the Obligations, the County will: (1) evidence the reimbursement allocation with an entry in the books or records which it maintains with respect to the Obligations, (2) identify in such entry the actual prior expenditure being reimbursed or the fund from which the expenditure was paid, and (3) be relieved of any restrictions under the relevant legal documents and applicable state law with respect to the amount received as reimbursement as a result of the reimbursement allocation; and

WHEREAS, this Resolution will be reasonably available for public inspection within a reasonable period of time after its date of adoption and in the same manner governing the public availability of records of other official acts of the County Board of Supervisors; and

WHEREAS, this Resolution is intended to be a “declaration of official intent” in accordance with Section 1.150-2 of the regulations of the United States Department of Treasury under the Internal Revenue Code of 1986, as amended (the “Treasury Regulations”);

NOW, THEREFORE, this Board does find, resolve, determine and order that in accordance with Section 1.150-2 of the Treasury Regulations, the County declares its intention to issue Obligations to finance the Equipment in an amount not to exceed \$70,000,000, the proceeds of which will be used to reimburse the County for capital

expenditures paid for the Equipment prior to the issuance of said Obligations.

The foregoing resolution was on the 18th day of June, 2007 adopted by the Board of Supervisors of the County of Los Angeles and *ex-officio* the governing body of all other special assessment and taxing districts, agencies and authorities for which said Board so acts.



SACHI A. HAMAI, Executive Officer,
Board of Supervisors of the County
of Los Angeles

By


Deputy

APPROVED AS TO FORM:

RAYMOND G. FORTNER, JR.
COUNTY COUNSEL

By


Principal Deputy County Counsel

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE
COUNTY OF LOS ANGELES DECLARING ITS INTENTION TO
REIMBURSE CERTAIN CAPITAL EXPENDITURES FROM THE
PROCEEDS OF TAXABLE OR TAX-EXEMPT OBLIGATIONS
(HEALTH FACILITIES IMPROVEMENTS PROGRAM)

WHEREAS, from time to time the County of Los Angeles (the "County") desires and intends to expend funds on certain health facility capital improvement projects (the "Projects"), as set forth in Attachment 1 hereto; and

WHEREAS, no funds of the County or of any other entity which is a part of the controlled group of which the County is a part (the "Controlled Group") are, or are reasonably expected to be, allocated, reserved or otherwise set aside in the County's budget or in the Controlled Group's budget on a long-term basis to pay the costs of the Projects; and

WHEREAS, the costs of the Projects will initially be paid from amounts temporarily withdrawn from the General Fund of the County of Los Angeles and/or the proceeds of Tax-Exempt Commercial Paper ("TECP") issued by the Los Angeles County Capital Asset Leasing Corporation ("LAC-CAL"); and

WHEREAS, the costs of the Projects paid with the proceeds of the TECP are expenditures of a type which are properly chargeable to a capital account under general federal income tax principles in connection with the Projects, and

WHEREAS, the County expects to issue taxable or tax-exempt bonds, notes,

or certificates of participation, or enter into a tax-exempt lease with a third-party lessor (“Obligations”) to reimburse the capital expenditures of the County with respect to the Projects; and

WHEREAS, after issuance of the Obligations, the County will:

(1) evidence the reimbursement allocation with an entry in the books or records which it maintains with respect to the Obligations, (2) identify in such entry the actual prior expenditure being reimbursed or the fund from which the expenditure was paid, and (3) be relieved of any restrictions under the relevant legal documents and applicable state law with respect to the amount received as reimbursement as a result of the reimbursement allocation; and

WHEREAS, this Resolution will be reasonably available for public inspection within a reasonable period of time after its date of adoption and in the same manner governing the public availability of records of other official acts of the County Board of Supervisors; and

WHEREAS, this Resolution is intended to be a “declaration of official intent” in accordance with Section 1.150-2 of the regulations of the United States Department of Treasury under the Internal Revenue Code of 1986, as amended (the “Treasury Regulations”);

NOW, THEREFORE, this Board does find, resolve, determine and order that in accordance with Section 1.150-2 of the Treasury Regulations, the County declares its intention to issue Obligations to finance the Projects in an amount not to exceed \$215,600,000, the proceeds of which will be used to reimburse the County for capital

expenditures paid for the Projects prior to the issuance of said Obligations.

The foregoing resolution was on the 18th day of June, 2007 adopted by the Board of Supervisors of the County of Los Angeles and *ex-officio* the governing body of all other special assessment and taxing districts, agencies and authorities for which said Board so acts.



SACHI A. HAMAI, Executive Officer,
Board of Supervisors of the County
of Los Angeles

By


Deputy

APPROVED AS TO FORM:

RAYMOND G. FORTNER, JR.
COUNTY COUNSEL

By


Principal Deputy County Counsel

Attachment to Tax-Exempt Commercial Paper Program Reimbursement Resolution dated January ____, 2007

Attachment I

Health Facility Capital Improvement Projects

| <u>Location</u> | <u>Project</u> | Capital Expenditure to Be Reimbursed |
|-------------------|--|--------------------------------------|
| High Desert | Multipurpose Ambulatory Care Center Conversion | \$xx million |
| Olive View | Emergency Room/Tuberculosis Unit | \$xx million |
| Harbor/UCLA | SB1953 Seismic Retrofit Program | \$xx million |
| MLK | SB1953 Seismic Retrofit Program | \$xx million |
| Olive View | SB1953 Seismic Retrofit Program | \$xx million |
| Rancho Los Amigos | SB1953 Seismic Retrofit Alternative | \$xx million |
| Rancho Los Amigos | SB1953 Seismic Retrofit (Outpatient Building) | \$xx million |
| Total: | | \$100 million |

Attachment to Tax-Exempt Commercial Paper Program Reimbursement Resolution dated June ____, 2007

Health Facilities Improvements Program Projects

| <u>Location</u> | <u>Project</u> | <u>Estimated Project Cost</u> |
|----------------------------------|--|-------------------------------|
| High Desert Health System | Ambulatory Care Building | \$98.9 million |
| Olive View Medical Center | Emergency Room Replacement/Tuberculosis Unit | \$49.4 million |
| Harbor-UCLA Medical Center | SB1953 Structural/Nonstructural Retrofit | \$41.1 million |
| Harbor-UCLA Medical Center | Surgery/Emergency Replacement | \$344.1 million |
| M.L.King/Harbor Hospital | SB1953 Structural/Nonstructural Retrofit | \$68.1 million |
| Olive View Medical Center | SB1953 Nonstructural Retrofit | \$27.5 million |
| Rancho Los Amigos Medical Center | Hospital Consolidation | \$42.0 million |
| Total | | \$671.1 million |